

Minutes
Investment Committee
June 18, 2015

IN ATTENDANCE:

Investment Committee Members:	Carol Martin Gatton, Chair James H. Booth William C. Britton Mark P. Bryant James W. Stuckert Robert D. Vance
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Community Advisory Members:	James F. Hardymon Myra L. Tobin
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Investment Staff & Consultants:	Susan I. Krauss Todd D. Shupp Kimberly C. Lush Becky Gratsinger (RVK)
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Mr. Gatton called the meeting to order at 4:00 p.m. Ms. Lush then conducted a roll call. Mr. Gatton made a motion to approve the minutes from the Committee meeting on May 7, 2015. Mr. Gatton's motion was moved by Mr. Britton, seconded by Mr. Stuckert, and approved by all.

Ms. Krauss presented the revised Endowment Investment Policy recommended for approval in IC 1 and discussed two proposed changes. The first change was an increase to the endowment management fee from 0.25% to 0.50%. She noted that based on existing return and spending targets, the University has the capacity to support the increased fee, which will be used to support increased costs in the Office of Central Development related to the upcoming campaign, as well as additional costs in the Office of the Treasurer related to management of the endowment. In the future, it is anticipated that the management fee may increase further, depending on the ability to increase returns. The other change to the policy was a revision to the fixed income management structure. Ms. Krauss presented a memo to the University from RVK that recommended and supported a shift in fixed income allocation. Changes will be at the strategy and structure level and designed to enhance the diversification and return potential of the fixed income portfolio, primarily by reducing the liquid unconstrained strategies. The expectation is to meaningfully increase the return while reducing the fees paid to managers in the fixed income portfolio. Mr. Gatton made a motion to approve the changes. The motion was moved by Mr. Stuckert, seconded by Mr. Britton, and approved by all.

Mr. Shupp provided a brief update of asset allocation and rebalancing/transition activity, noting that the portfolio remains well diversified and well within the policy ranges and there has been no rebalancing/transition activity since the last meeting. He then provided an update on manager appointments, terminations and due diligence. On May 12, 2015, subscription documents for a \$10,000,000 commitment to the Contrarian Distressed Real Estate Debt Fund III were completed, there were no manager terminations for the period of May 8, 2015 through June 18, 2015 and a listing of due diligence on-going efforts was presented. He then provided an update on the custodian search, noting that presentations have been made to the Evaluation Committee and best and final offers are expected soon.

Next, Ms. Gratsinger began by reviewing two recent memos to the University from RVK relating to manager changes. The first was dated May 21, 2015 and was in regards to the departure of Lindsay Thrift-Politi from Wellington, which impacts the Diversified Inflation Hedges strategy. The other was a notification of the departure of Virginie Maisonneuve from PIMCO and the discontinuation of two PIMCO equity funds. Neither departure is considered to be a cause of concern. She continued with a discussion of the University's portfolio, which had a value of \$1.2 billion as of March 31, 2015 and a rate of return of 0.92% for the nine months ended March 31st. Relating to asset allocation versus target allocation differences, she noted that the portfolio was overweight in domestic and international equity and underweight in other strategies such as real estate and diversified inflation strategies. She then discussed asset allocation by composite, noting that the asset class that contributed the most in the quarter was international equity with a 0.59% contribution to total return by composite, followed by long/short equity at 0.35% and domestic equity at 0.27%. She then presented asset allocation and performance reporting – net of fees as of March 31, 2015. The quarter to date return was 1.84%, 0.43% less than the 2.27% actual allocation index. International equity returned 3.92%, outperforming the benchmark of 3.55%, domestic equity returned 1.74%, compared to the benchmark of 1.80%, fixed income had a soft return of 0.54%, underperforming the benchmark return of 1.61%, diversified inflation strategies returned 1.80%, in-line with the index of 1.79%, the GTAA composite returned 0.57%, compared to the benchmark of 1.79%, long/short equity returned 2.55%, trailing an index return of 3.53%, the absolute return composite returned 1.55%, compared to the index return of 2.53%, real estate returned 2.62%, behind the benchmark of 3.40%, and for the private equity returns that were available, private equity returned 0.15%. She concluded the March asset allocation and performance review with a gross of fees analysis, noting that the University ranked in the 67 percentile relative to others. Ms. Gratsinger then mentioned the portfolio's performance through May 31, 2015, which had a calendar year to date return of 3.5% and a fiscal year to date return of 2.6%.

Ms. Krauss then provided a brief performance review for operating fund cash and investments as of April 30, 2015. She stated that the total of operating fund cash and investments at that time was approximately \$1.2 billion, including \$275 million of bond proceeds. Also, total cash and investments subject to the operating fund investment policy were approximately \$470 million. Ms. Krauss concluded with a personnel announcement, introducing Sarah Heil, who was recently hired as the Treasury and Debt Analyst.

The meeting was adjourned at 5:04 p.m.

Respectfully submitted,
Kimberly C. Lush
Office of the Treasurer